

Message Text

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ACTION NEA-16

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3137

INFO AMEMBASSY CAIRO

C O N F I D E N T I A L TEL AVIV 3940

CAIRO FOR SECRETARY SIMON'S PARTY

E.O. 11652: GDS

TAGS: ECON, ELAB, IS

SUBJ: GOVERNMENT'S ANTI-INFLATION PROGRAM

REF: TEL AVIV 3871

1. GOVT HAS DECIDED TO LEVY COMPULSORY LOANS ON WORKERS AND ON EMPLOYERS IN LIEU OF INITIALLY PROPOSED FREEZE OF ONE-HALF OF COST-OF-LIVING ALLOWANCE (COLA) PAYABLE TO WORKERS AND PAYROLL TAX OF 5 PERCENT UPON EMPLOYERS. BOTH LOANS WILL BE AT RATE OF 3 PERCENT PER MONTH DURING JULY 1974-MARCH 1975. FOR EMPLOYEES AND SELF-EMPLOYED, COMPULSORY LOAN WILL BE ON TAXABLE INCOME (WHICH EXCLUDES COLA AND OVERTIME AND PRODUCTIVITY PREMIA). ON EMPLOYERS COMPULSORY LOAN WILL BE ON TOTAL PAYROLL (WHICH INCLUDES COLA AND PREMIA). LOANS ARE TO BE REPAID AFTER TEN YEARS; PRINCIPAL WILL BE LINKED TO CONSUMER PRICE INDEX, WHILE INTEREST AT RATE OF THREE PERCENT WILL NOT BE LINKED.

2. ASYMMETRY IN LOAN BASE IS DUE TO PRACTICAL CONSIDERATIONS. HISTADRUT OPPOSED GOI'S PROPOSAL TO LEVY COMPULSORY LOAN ON ENTIRE GROSS INCOME, AND SUCCESSFULLY HELD OUT FOR EXEMPTION OF COLA AND PREMIA FROM LOAN BASE. THIS IS SIGNIFICANT CONCESSION: ONE-THIRD OR MORE OF GROSS PAY REPRESENTS SUCH
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TAX-EXEMPT PAYMENTS, AND MORE AND MORE OF COMPENSATION HAS TENDED

TO GO INTO THIS CHANNEL IN RECENT YEARS. ONE LOCAL EMPLOYEE TOLD US THAT 55 PERCENT OF HIS WIFE'S GROSS COMPENSATION FELL INTO TAX-EXEMPT CATEGORY; THIS PERCENTAGE IS CERTAINLY TOO HIGH AS NATIONAL AVERAGE, BUT IT SUGGESTS IMPORTANT ROLE WHICH TAX-EXEMPT INCOME PLAYS IN DISPOSABLE INCOME.

3. CHAIRMAN OF MANUFACTURER'S ASSOCIATION REPORTEDLY PROTESTED DISCRIMINATION IN LOAN BASE. FINANCE MINISTER RABINOWITZ IS REPORTED TO HAVE REPLIED THAT GOI DID NOT HAVE STRENGTH TO OVERRIDE HISTADRUT'S OBJECTIONS.

4. GOI CLAIMS THAT THESE TWO COMPULSORY LOANS WILL ABSORB IL 600 MILLION THIS FISCAL YEAR. GOI'S ORIGINAL PROPOSALS (PARA ONE) WOULD HAVE ABOSRBED IL 900 MILLION. THERE IS NO INDICATION WHAT, IF ANYTHING, WILL PICK UP SLACK. HOWEVER, IT IS HOPED THAT EMPLOYERS WILL FIND IT HARDER TO PASS ON LOAN TO PUBLIC THAN TAX.

5. GOI'S DECISION MUST GO TO KNESSET NOW TO BE ENACTED INTO LAW.

6. INCREASE OF COMPULSORY DEFENSE LOAN FROM 7 PERCENT TO 10 PERCENT AS REPORTED IN TEL AVIV 3661, PARA 2(B) IS IN ADDITION TO FOREGOING. GOI MINISTRY OF FINANCE REPORTEDLY WANTS INCREASE TO BE 3 PERCENT ON ANNUAL BASIS, WHICH WOULD MEAN COLLECTION AT 4 PERCENT FOR PERIOD JULY 1974-MARCH 1975. WE UNDERSTAND HISTADRUT WILL OPPOSE THIS INTERPRETATION, AND WILL INSIST THAT IT BE COLLECTED AT 3 PERCENT PER MONTH (EQUALS 2.25 PERCENT ON ANNUAL BASIS).
VELIOTES

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